Pursuing a Better Investment Experience

SHORELINE
FINANCIAL ADVISORS

Independent financial planning and investment management

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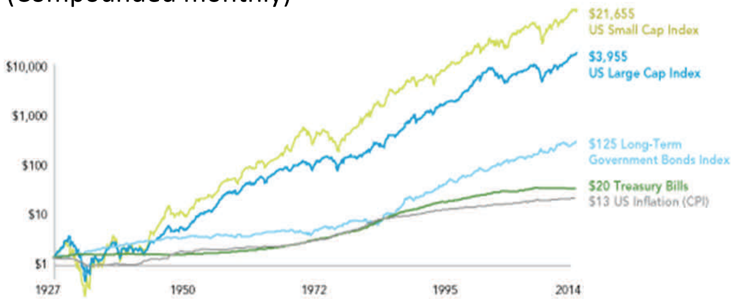
In this era of the 24/7 news cycle and the constant barrage of investment advice from 'experts', we offer a guide to achieving a more satisfactory result from your savings and retirement accounts. Although simple and effective, these concepts have proven elusive to the majority of investors.

1. Let Markets Work for You

Growth of a Dollar, 1926–2014
(Compounded monthly)



The financial markets have rewarded long-term investors. Historically, the equity and bond markets have provided growth of wealth that has more than offset inflation.

Most people look to the financial markets as their main investment avenue — and the good news is that the capital markets have rewarded long-term investors. The markets represent capitalism at work. This is documented in the growth of wealth graph shown.

The data illustrates the beneficial role of stocks in creating real wealth over long periods of time. T-bills have barely covered inflation, while longer-term bonds have provided higher returns over inflation. US stock returns have far exceeded inflation and significantly outperformed bonds.

Another key point is that not all stocks or bonds are the same. For example, consider the performance of US small company stocks as illustrated in the graph. They have proven to be an even greater wealth creator over long periods

Keep in mind that there's risk and uncertainty in the markets. Historical results may not be repeated in the future.

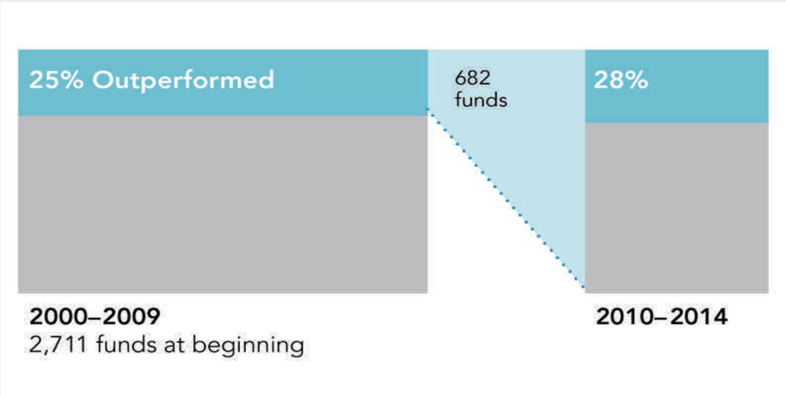
As a fiduciary, SFA can structure the best approach to putting your money to work in order to benefit from the fruits of capitalism.

Disclosure: Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Source: In US dollars. US Small Cap Index is the Fama/French US Small Cap Index; US Large Cap Index is the Fama/French US Large Cap Index; Long-Term Government Bonds Index is 20-year US Government Bonds; Treasury Bills are One-Month US Treasury bills; Inflation is the Consumer Price Index. Fama/French data provided by Fama/French. Bonds, T-bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

2. Resist Chasing Past Performance

Do Outperforming US Equity Mutual Funds persist?



Some investors select mutual funds based on past returns. However, funds that have outperformed in the past do not always persist as winners.

Past performance alone provides little insight into a fund's ability to outperform in the future. Some investors use mutual fund track records as a guide to selecting funds, reasoning that a manager's past outperformance is likely to continue into the future.

Does this assumption pay off? The research offers strong evidence to the contrary.

This chart illustrates the lack of persistence in outperformance among US equity mutual funds. The funds are evaluated based on their 10-year track records (2000–2009), and those that beat their respective benchmarks are re-evaluated in the subsequent five-year period (2010–2014).

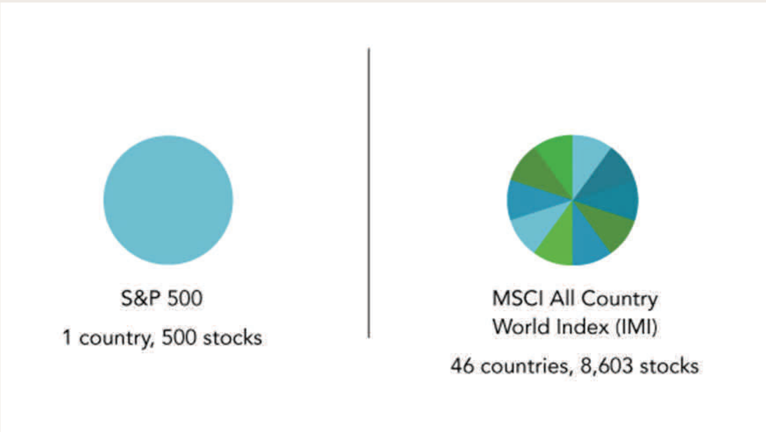
Among the 2,711 equity funds that began the initial 10-year period, only 25% outperformed—and among these 682 winning funds, only 28% continued to beat their benchmarks in the subsequent five-year period. Some US equity fund managers may be better than others, but they are hard to identify in advance using track records alone. Returns contain a lot of noise, and impressive track records often result from good luck. The assumption that past outperformance will continue often proves faulty and leaves many investors disappointed.

Disclosure: The graph shows the proportion of US equity mutual funds that outperformed and underperformed their respective benchmarks during the initial 10-year period ending December 31, 2009. Outperforming were reevaluated in the subsequent five-year period from 2010 through 2014, with the graph showing outperformers and underperformers. Fund count and percentages may not correspond due to rounding.

Source: The US Mutual Fund Landscape 2015, Dimensional Fund Advisors. US-domiciled mutual fund data is from the CRSP Survivor-Bias-Free US Mutual Fund Database, provided by the Center for Research in Security Prices, University of Chicago.

3. Practice Smart Diversification

"Diversification helps reduce risks that have no expected return, but diversifying within your home market is not enough. Global diversification can broaden your investment universe ."



Many people concentrate their investment in their home stock market. They choose only US stocks and mutual funds and consider their portfolio diversified. In some cases, they only hold a small group of securities. Yet, from a global perspective, limiting one's investment universe to a handful of stocks, or even one stock market, is a concentrated strategy with possible risk and return implications.

This illustration offers a conceptual comparison of investing only in the US market, as represented by the S&P 500 Index, and structuring a globally diversified portfolio that holds assets in markets around the world, as represented by the MSCI All Country World Index (IMI). For the global portfolio, holding over 8,600 stocks in 46 countries broadens one's investment universe.

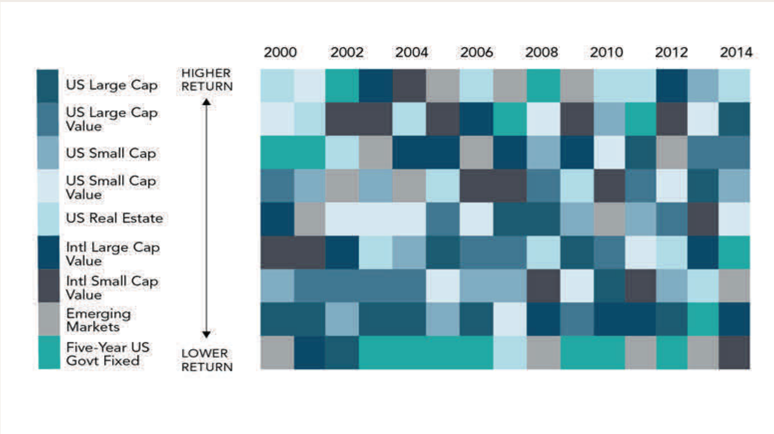
A diversified portfolio should be structured to hold multiple asset classes that represent different market areas across the world. Shoreline Financial Advisors can help you to structure a well-diversified portfolio.

Disclosure: Diversification does not eliminate the risk of market loss. There is no guarantee investment strategies will be successful. This information is for illustrative purposes only. Indices are not available for direct investment and their performance does not reflect the expenses associated with the management of an actual portfolio. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Past performance is not a guarantee of future results.

Source: The S&P data are provided by Standard & Poor's Index Services Group. MSCI data Number of holdings for the S&P 500 and MSCI All Country World Index–Investable Market Index (MSCI ACWI IMI) as of December 31, 2014.

4. Avoid Market Timing

Annual Returns by Market Index



You never know which market segments will outperform from year to year. By holding a globally diversified portfolio, investors are well positioned to capture returns wherever they occur.

This graph features annual ranked performance of major asset classes in the US and international markets from 2000 through 2014. The asset classes are represented by corresponding market indices. Each asset class is represented by a different shade of blue.

Even with a globally diversified portfolio, market movements can tempt investors to switch asset classes based on predictions of future performance. But as shown in this table, there is little predictability in asset class performance from one year to the next.

The data shows no obvious pattern of performance across asset classes, suggesting that predicting future performance is a difficult task. The charts offer additional evidence for investors to rely on portfolio structure, rather than market timing, to pursue returns.

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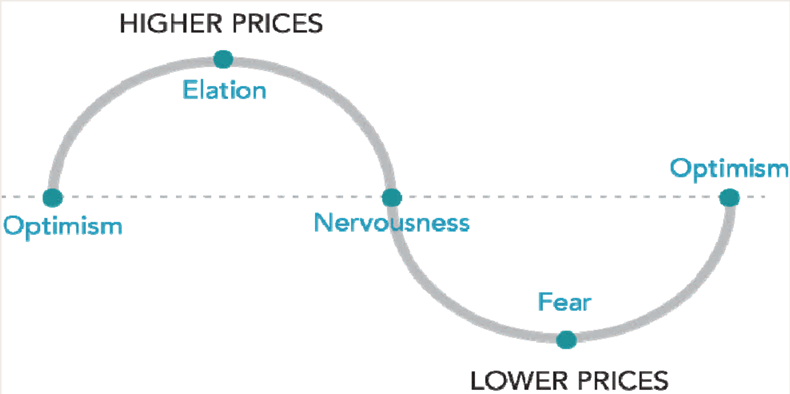
Source: In US dollars. US Large Cap is the S&P 500 Index, provided by Standard & Poor's Index Services Group. US Large Cap Value is the Russell 1000 Value Index. US Small Cap is the Russell 2000 Index. US Small Cap Value is the Russell 2000 Value Index. Russell data © Russell Investment Group 1995–2015, all rights reserved. US Real Estate is the Dow Jones US Select REIT Index, provided by Dow Jones Indexes. International Large Cap Value data provided by Fama/French from Bloomberg and MSCI securities data. International Small Cap Value data compiled by Dimensional from Bloomberg and Style Research securities data. Emerging Markets is the MSCI Emerging Markets Index (gross dividends), © MSCI 2015, all rights reserved. Five-Year US Government Fixed is the Barclays Capital Treasury Bond Index 1−5 Years, formerly Lehman Brothers, provided by Barclays Bank PLC.

5. Manage Your Emotions

Reactive Investing in a Market Cycle



Many people struggle to separate their emotions from investing. Markets go up and down. Reacting to current market conditions may lead to making poor investment decisions at the worst times.

The idea behind investing is to buy low and sell high. Yet, following an emotional investment cycle sparked by reactive decisions may bring the opposite effect:

buying at higher prices and selling at lower prices.

The 2008–09 global market downturn offers an example of how the cycle of fear and greed can drive an investor's decisions. Some investors fled the market in early 2009, just before the rebound began. They locked in their losses and then experienced the stress of watching the markets climb.

Staying disciplined through rising and falling markets can pose a challenge, but it is crucial for long-term success. Working with a financial advisor can help you stay focused on your long-term goals through turbulent markets.

6. Look beyond the Headlines

Daily market news and commentary can challenge your investment discipline. Some messages stir anxiety about the future while others tempt you to chase the latest investment fad.

When tested, consider the source and maintain a long-term perspective.

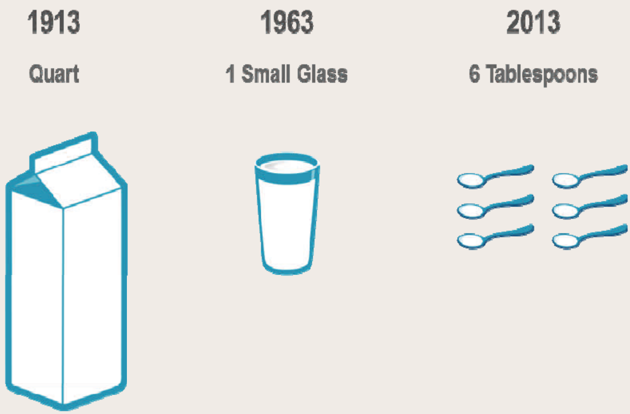
News and financial commentary can influence people's view of investing. Without a strong investment philosophy to guide them, they also may follow the poor advice of today's media focused on short-term results.

Growing wealth has no shortcuts. Success requires a solid investment approach, a long-term perspective, and discipline to stay the course.

7. Inflation

To achieve a better investment experience, let's begin by considering what you want to accomplish as an investor. Why do people invest at all? One major reason is to grow their wealth in preparation for, or during their retirement. Whatever their reason for accumulating and investing money, there's another concern that creates the need to save and invest: *the threat of inflation*.

Inflation erodes the real purchasing power of your wealth.

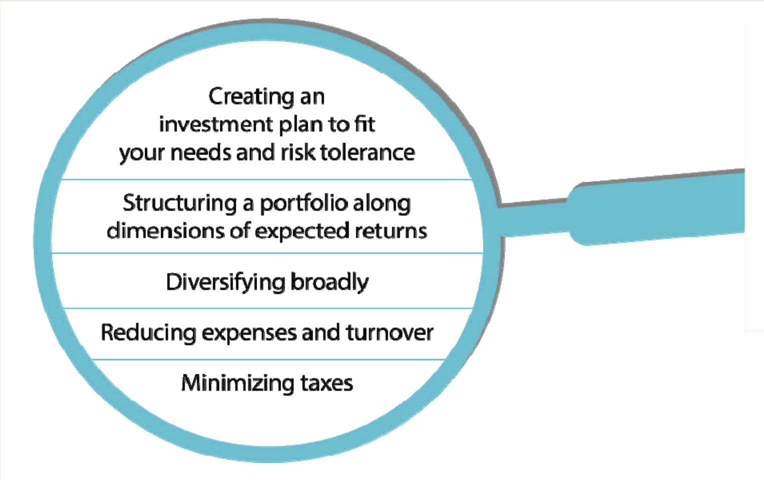


Consider an illustration of the effects of inflation over time. In 1913, nine cents would buy a quart of milk. Fifty years later, nine cents would only buy a small glass of milk. And 100 years later, nine cents would only buy about six tablespoons of milk. So, as the value of a dollar declines over time, you invest to grow wealth and preserve purchasing power.

We often hear people say, “yes, but investing is risky.” But considering the long-term threat of inflation, *not investing means taking risks, too*. If you don’t grow your money, you may not be able to afford things in the future.

Source: Consumer Price Index

8. Focus On What You Can Control



To have a better investment experience, people should focus on the things they can control.

It starts with an advisor creating an investment and retirement plan based on market principles, informed by financial science, and tailored to a client's specific needs and goals. Along the way, an advisor can help clients focus on actions that add investment value, such as managing expenses, minimizing taxes, and portfolio turnover while maintaining broad diversification.

Equally important, an advisor can provide knowledge and encouragement to help investors stay disciplined through various market conditions.

About Shoreline Financial Advisors

Our business is about building relationships — relationships where we are valued for our insight and expertise, but more important, for our personal approach.

We will get to know you to understand what is important to you. That's what is important to us. When we understand your personal goals, we can recommend ways to help you achieve your goals.

So when you reach that point when you want to take a look at your life, and think about where you want to be down the road, we're ready to have a meaningful conversation about how you can get there.

Let's talk. Give us a call or send us an email.

We're ready when you are.

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